

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

FINANCIAL STATEMENTS

June 30, 2009 and 2008

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

INTRODUCTORY SECTION

June 30, 2009 and 2008

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee
June 30, 2009 and 2008

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TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

FINANCIAL SECTION

June 30, 2009 and 2008



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November 11, 2009

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

We have audited the accompanying financial statements of the business-type activities of Tellico Area Services Systems, Vonore, Tennessee, as of and for the years ended June 30, 2009 and 2008, which comprise the Systems' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Tellico Area Services Systems' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Tellico Area Services Systems, Vonore, Tennessee, as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2009, on our consideration of the Tellico Area Services Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the business-type activities that comprise the Utility's basic financial statements. The accompanying financial information listed as supplemental information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Tellico Area Services Systems. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Ingram, Overholt & Bean, P.C.



P.O. BOX 277 VONORE, TENNESSEE 37885 PHONE (423) 884-8400 OR (865) 856-3530

November 11, 2009

Our discussion and analysis of the Tellico Area Services Systems' financial performance provides an overview of the Utility's activities for the years ended June 30, 2009 and 2008. Please read it in conjunction with the Utility's financial statements, as listed in the Table of Contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets provide information about the Utility as a whole and present a long-term view of the Utility's finances.

THE STATEMENTS OF NET ASSETS AND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

One of the most important questions asked about the Utility's finances is "Is the Utility better off or worse off as a result of this year's activities?" The Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets report information about the Utility and about its activities that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Utility's assets, liabilities, net assets and changes in them. You can think of the Utility's net assets – the difference between assets and liabilities – as one way to measure the Utility's financial health, or financial position. Over time, increases and decreases in the Utility's net assets are one indicator of whether its financial health is improving or deteriorating.

FINANCIAL HIGHLIGHTS

The operations of the Tellico Area Services Systems are primarily funded as follows:

	<u>2009</u>	<u>2008</u>
Water revenues	61.63%	61.70%
Capital contributions	22.12%	23.18%
Sewer revenues	10.90%	10.07%
Interest income	1.76%	2.69%
Forfeited discounts	1.11%	1.07%
Sprinkler system income	0.97%	0.72%
Customer service charges and miscellaneous income	<u>1.51%</u>	<u>0.57%</u>
Total Revenues	<u>100.00%</u>	<u>100.00%</u>

Operational costs for the Utility were \$2,874,140 and \$2,488,866 for the fiscal years ended June 30, 2009 and 2008 respectively.

ASSETS, LIABILITIES, AND NET ASSETS

The analysis below focuses on the assets, liabilities and net assets of the Utility.

	<u>2009</u>	<u>2008</u>
Current Assets	\$ 3,413,410	\$ 2,766,175
Capital Assets, net of depreciation	20,586,263	16,637,152
Restricted Assets	513,157	513,124
Other Assets	<u>14,948</u>	<u>17,200</u>
Total Assets	<u>24,527,778</u>	<u>19,933,651</u>
Current Liabilities	779,626	392,499
Long-Term Debt	7,854,556	4,611,261
Other Liabilities	<u>50,850</u>	<u>44,100</u>
Total Liabilities	<u>8,685,032</u>	<u>5,047,860</u>
Net Assets – Unrestricted	2,662,599	2,250,643
Invested in Capital Assets, net of related debt	12,666,990	12,122,024
Restricted for debt service	13,157	13,124
Restricted for replacements	<u>500,000</u>	<u>500,000</u>
Total Net Assets	<u>\$ 15,842,746</u>	<u>\$ 14,885,791</u>

The assets of the Utility increased by 23.05% during the current year. Net Assets of the Utility increased by 6.43%.

FINANCIAL RATIOS

The ratio of Working Capital demonstrates the continuing ability to finance operations with cash. The change in the current ratio indicates the Utility's ability to meet short-term debt obligations. The higher the ratio, the more liquid the Utility is.

	<u>2009</u>	<u>2008</u>
Working Capital (the amount by which current assets exceed current liabilities)	\$ 2,633,784	\$ 2,373,676
Current Ratio (compares current assets to liabilities-as an indicator of the ability to pay current obligations)	4.38	7.05
Return Assets (illustrates to what extent there will be sufficient funds to replace assets in the future)	4.30%	6.62%

CAPITAL ASSETS

At the fiscal year ended June 30, 2009, the Utility had \$27,691,990 invested in capital assets as outlined below (a 6.97% increase over the last year).

	<u>2009</u>	<u>2008</u>
Land and land rights	\$ 324,700	\$ 324,700
Building and improvements	1,067,940	1,067,940
Distribution facilities	21,900,654	19,992,523
Office furniture and fixtures	142,947	138,927
Tools and equipment	547,139	563,023
Construction in progress	<u>3,708,610</u>	<u>1,095,338</u>
Totals	<u>\$ 27,691,990</u>	<u>\$ 23,182,451</u>

DEBT

The change in bonds and notes payable for the fiscal year ended June 30, 2009, is as follows:

	<u>Balance</u> <u>6/30/08</u>	<u>Proceeds</u>	<u>Retired</u>	<u>Balance</u> <u>6/30/09</u>
Monroe County Bonds	\$ 1,741,753	\$ -	\$ (98,923)	\$ 1,642,830
Loudon County Bonds	1,618,736	-	(89,084)	1,529,652
TRDA Note	1,413,390	-	(160,268)	1,253,122
SRF Note	<u>-</u>	<u>3,508,442</u>	<u>-</u>	<u>3,508,442</u>
Total	<u>\$ 4,773,879</u>	<u>\$ 3,508,442</u>	<u>\$ (348,275)</u>	<u>\$ 7,934,046</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the Utility's finances and to show the Utility's accountability for the revenues it receives. If you have any questions about this report or need additional financial information, contact the Systems Manager, PO Box 227, Vonore, Tennessee, 37885.

Respectfully submitted,



Mark Clinton
Systems Manager

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF NET ASSETS – BUSINESS-TYPE ACTIVITIES

<u>ASSETS</u>	June 30, <u>2009</u>	June 30, <u>2008</u>
CAPITAL ASSETS:		
Non-depreciable.....	\$ 324,700	\$ 324,700
Depreciable, net of accumulated depreciation	<u>16,552,953</u>	<u>15,217,114</u>
	16,877,653	15,541,814
Construction in process	<u>3,708,610</u>	<u>1,095,338</u>
Total Capital Assets	<u>20,586,263</u>	<u>16,637,152</u>
 CURRENT ASSETS:		
Certificate of Deposit	1,300,000	1,000,000
Cash	1,123,737	933,491
Accounts receivable	401,946	477,878
Other receivable	241,726	241,726
Due from Tennessee SRF	277,211	-
Prepaid expenses	339	31,545
Inventory	<u>68,451</u>	<u>81,535</u>
Total Current Assets	<u>3,413,410</u>	<u>2,766,175</u>
 RESTRICTED ASSETS:		
Cash – Bond Fund.....	13,157	13,124
Certificate of Deposit – Replacement Fund.....	<u>500,000</u>	<u>500,000</u>
Total Restricted Assets.....	<u>513,157</u>	<u>513,124</u>
 OTHER ASSETS:		
Utility deposits.....	175	175
Unamortized bond issue costs.....	<u>14,773</u>	<u>17,025</u>
Total other assets	<u>14,948</u>	<u>17,200</u>
Total Assets.....	<u>\$ 24,527,778</u>	<u>\$ 19,933,651</u>

See accompanying independent auditors' report and notes.

	June 30, <u>2009</u>	June 30, <u>2008</u>
<u>LIABILITIES AND NET ASSETS</u>		
LONG-TERM DEBT:		
Note payable – TRDA.....	\$ 1,253,122	\$ 1,413,390
Note payable – State Revolving Fund.....	3,508,442	-
Bonds payable – Water Revenue, Series 1994 – Loudon County	682,589	703,394
Bonds payable – Water Revenue, Series 1995 – Monroe County	519,999	529,959
Bonds payable – Water Revenue and Tax Refunding, Series 1998 – Loudon County	-	45,000
Bonds payable – Water Revenue and Tax Refunding, Series 1998 – Monroe County	-	45,000
Bonds payable – Local Government Public Improvement Series IV-E-6 – Monroe County.....	477,500	512,500
Bonds payable – Local Government Public Improvement Series IV-E-6 – Loudon County	495,000	512,500
Bonds payable – Water Revenue and Tax Bonds Series 2000.....	301,671	306,120
Bonds payable – Water Revenue and Tax Bonds Series 2005 – Loudon County	352,063	357,842
Bonds payable – Water Revenue and Tax Bonds Series 2005 – Monroe County	343,660	348,174
Less: Bonds payable – Due within one (1) year	<u>(79,490)</u>	<u>(162,618)</u>
Total Long-Term Debt.....	<u>7,854,556</u>	<u>4,611,261</u>
CURRENT LIABILITIES:		
Accounts payable.....	600,321	116,743
Sales tax payable	9,030	-
Accrued interest.....	-	90,913
Accrued compensated absences.....	90,785	22,225
Bonds payable within one (1) year	<u>79,490</u>	<u>162,618</u>
Total Current Liabilities.....	<u>779,626</u>	<u>392,499</u>
OTHER LIABILITIES:		
Customer meter deposits	<u>50,850</u>	<u>44,100</u>
Total Liabilities	<u>8,685,032</u>	<u>5,047,860</u>
NET ASSETS:		
Invested in capital assets, net of related debt.....	12,666,990	12,122,024
Restricted for debt service.....	13,157	13,124
Restricted for replacements	500,000	500,000
Unrestricted	<u>2,662,599</u>	<u>2,250,643</u>
Total Net Assets	<u>15,842,746</u>	<u>14,885,791</u>
Total Liabilities and Net Assets	<u>\$ 24,527,778</u>	<u>\$ 19,933,651</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2009</u>	<u>2008</u>
OPERATING REVENUES:		
Metered water sales (net of uncollectible accounts of \$42,140 in 2009 and \$3,989 in 2008).....	\$ 2,478,609	\$ 2,377,186
Water tap fees	55,212	79,890
Metered sewer sales, sewer service charges and sewer tap fees.....	448,269	401,171
Customers' forfeited discounts.....	45,836	42,663
Sprinkler systems' income	39,687	28,650
Customer service charges and miscellaneous income	<u>59,843</u>	<u>22,711</u>
Total Operating Revenues	<u>3,127,456</u>	<u>2,952,271</u>
OPERATING EXPENSES:		
Salaries and wages	941,742	784,064
Payroll taxes	69,311	65,182
Laboratory supplies.....	34,331	25,062
Chemicals.....	106,803	123,932
Goodwill advertising.....	2,288	2,859
Utilities.....	291,331	253,495
Telephone	17,982	21,445
Office supplies, postage, and bank charges	37,282	28,763
Maintenance and plant expenses	120,724	35,712
Repairs	28,123	24,650
Commissioner's fee	21,600	21,600
Insurance	65,985	67,620
Employee benefits – Health insurance	267,384	252,760
Billing service.....	27,433	26,720
Legal and audit	11,303	13,962
Uniforms	1,970	2,846
Miscellaneous	30,459	22,696
Retirement benefits	52,362	51,554
Conferences and seminars	6,257	2,849
Professional consultants	61,726	40,561
Vehicle expenses.....	53,302	78,421
Depreciation	<u>624,442</u>	<u>542,113</u>
Total Operating Expenses	<u>2,874,140</u>	<u>2,488,866</u>
OPERATING INCOME.....	<u>253,316</u>	<u>463,405</u>
OTHER INCOME (EXPENSES):		
Interest earned.....	72,324	106,952
Interest expense	(198,800)	(168,948)
Amortization of bond issue cost.....	(2,252)	(3,581)
Capital contributions	830,557	923,036
Gain on sale of fixed asset.....	<u>1,810</u>	<u>-</u>
Net Other Income (Expense)	<u>703,639</u>	<u>857,459</u>
NET INCOME.....	956,955	1,320,864
NET ASSETS – July 1	<u>14,885,791</u>	<u>13,564,927</u>
NET ASSETS – June 30.....	<u>\$ 15,842,746</u>	<u>\$ 14,885,791</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF CASH FLOWS

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,203,388	\$ 2,680,469
Cash payments to suppliers for goods and services	(970,707)	(1,118,482)
Cash payments to employees for services	<u>(941,742)</u>	<u>(814,760)</u>
Net Cash Flows Provided By Operating Activities	<u>1,290,939</u>	<u>747,227</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(4,571,743)	(1,511,117)
Proceeds from bonds and notes	3,508,442	-
Principal paid on bonds and notes	(348,275)	(196,011)
Interest paid on debt	(289,713)	(162,157)
Capital contribution	830,557	923,036
Bond Issue Costs	<u>(2,252)</u>	<u>(3,581)</u>
Net Cash Flows Provided (Used) By Capital and Related Financing Activities	<u>(872,984)</u>	<u>(949,830)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received	72,324	106,952
Purchase of certificate of deposit	<u>(300,000)</u>	<u>-</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>(227,676)</u>	<u>106,952</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	190,279	(95,651)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR ...	<u>946,615</u>	<u>1,042,266</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u>\$ 1,136,894</u>	<u>\$ 946,615</u>

(Continued)

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF CASH FLOWS (Continued)

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING REVENUE TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income.....	\$ 253,316	\$ 463,405
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	624,442	542,113
Change in assets and liabilities:		
Accounts receivable, trade	75,932	(30,076)
Other receivable.....	-	(241,726)
Due from Tennessee SRF.....	(277,211)	-
Prepaid expenses	31,206	(1,834)
Inventory.....	13,084	(30,347)
Customer meter deposits.....	6,750	3,206
Accounts payable.....	483,578	80,784
Sales tax payable	9,030	(11,183)
Compensated absences.....	68,560	-
Accrued payroll and payroll taxes	-	(30,696)
Bond issue cost.....	<u>2,252</u>	<u>3,581</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,290,939</u>	<u>\$ 747,227</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO THE BALANCE SHEET:		
Current assets – cash.....	\$ 1,123,737	\$ 933,491
Restricted assets:		
Bond Fund.....	<u>13,157</u>	<u>13,124</u>
Ending Cash and Cash Equivalents	<u>\$ 1,136,894</u>	<u>\$ 946,615</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – REPORTING ENTITY:

The Tellico Area Services Systems is a jointly owned and operated system of Loudon County, Tennessee, acting through the Loudon County Board of Public Utilities, a public body organized and created pursuant to TCA 5-1601 et set, and Monroe County, Tennessee, acting through Monroe County Board of Public Utilities, a public body organized and created pursuant to TCA 5-1601 et set. The agreement between Loudon County, Tennessee, and Monroe County, Tennessee, was signed on December 3, 1970.

The water plant was constructed on land owned by the Tennessee Valley Authority. A permanent easement was granted to Tellico Area Services Systems by the Tennessee Valley Authority on June 11, 1974. Said agreement was delivered to, and accepted by, Tellico Area Services Systems on August 22, 1974.

The Department of Housing and Urban Development (HUD) administered the grants and contracts awarded for the financing and construction of the complete water system of Tellico Area Services Systems.

Governmental Accounting Standards Board (GASB) Statement No. 14 – “The Financial Reporting Entity”, as amended by GASB Statement No. 39 – “Determining Whether Certain Organizations are Component Units” defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of a component unit's Board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The financial statements of the Utility (primary government) provide an overview of the entity based on financial accountability. The primary government consists of all the organizations that make up its legal entity – all funds, departments, and offices that are not legally separate. The Utility meets the criteria defined for a primary government in GASB No. 14, as amended by GASB Statement No. 39 as follows:

- a. Separate legal standing through legislation authorizing its creation
- b. Fiscally independent of other state and local governments

A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the criteria applicable to GASB No. 14, as amended by GASB Statement No. 39 for component units, the Utility has no financial accountability for any component units. Therefore, the financial reporting entity is limited to those funds, departments, and offices which comprise the Utility's legally adopted jurisdictions.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

(a) Accounting Method:

Tellico Area Services Systems is accounted for as an enterprise fund type and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business and where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Per Governmental Accounting Standards Board Statement No. 20, the Utility has not opted to follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989.

(b) Cash and Cash Equivalents:

The Utility considers all highly liquid investments with an original maturity of three (3) months or less to be "cash equivalents".

(c) Accounts Receivable:

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is uncollectible. Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based upon the month's billing following the close of the fiscal year.

(d) Inventories:

Inventories on hand are limited to chemicals, lab supplies, and line materials and are stated at cost, using the first-in, first-out inventory valuation method.

(e) Utility Plant and Depreciation:

The cost of additions to utility plant and the cost of renewals and betterments are capitalized. Cost includes labor, materials and services. The cost of current repairs and minor replacements is charged to operating expense currently.

Depreciation is calculated using the straight-line method based upon estimated service lives. Depreciation rates vary from 2% to 20%.

(f) Construction Period Interest:

It is the Utility's policy to capitalize interest on debt used to finance the acquisition of fixed assets during the construction period.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

(g) Compensated Absences:

The employees of Tellico Area Services Systems can accumulate one-half (1/2) day per month up to forty-five (45) days of sick leave. The employees earn one (1) week of vacation after one year of service, two (2) weeks after two years service, three (3) weeks after five years services and four (4) weeks after fifteen years service.

The Utility accrues the amounts employees are entitled to receive for future absences, in accordance with Governmental Accounting Standards Board Statement Number 16.

(h) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Use of Resources:

When both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, then unrestricted resources, as they are needed.

(j) Classification of Revenues and Expenses:

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services of the fund's principal ongoing operations. Operating expenses include the cost of providing the goods and services, administrative expenses, and depreciation on capital assets. Non-operating revenues and expenses are items such as investment income and interest expense, which are not a result of the direct operations of the activity.

NOTE 3 – CASH AND INVESTMENTS:

In order to provide a safe temporary medium for investment of idle funds, utilities are authorized by TCA 6-56-106 to invest in the following:

- (1) Bonds, notes, or treasury bills of the United States;
- (2) Non-convertible debt securities of certain issuers;
- (3) Other obligations which are guaranteed as to principal and interest by the United States or any of its agencies;
- (4) Certificates of Deposit at state and federal chartered banks and savings and loan associations;

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 3 – CASH AND INVESTMENTS (Continued):

- (5) Obligations of the United States or its agencies under a repurchase agreement if approved as an authorized investment by the State Director of Local Finance;
- (6) Money market funds whose portfolios consist of any of the foregoing investments if approved as an authorized investment by the State Director of Local Finance; and
- (7) The Local Government Investment Pool under which local monies are transferred to and invested with the State Treasurer's cash portfolio.

Cash and investments include bank balances and investments that at the balance sheet date were either entirely insured or collateralized with securities held by the Tennessee Investment Collateral Pool.

Total cash and investments at a carrying amount of \$2,936,894 and \$2,445,615 at June 30, 2009 and 2008, respectively, are classified as follows:

<u>Type</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Petty cash	\$ 100	\$ 100
Local financial institutions -		
Checking accounts	1,112,395	907,839
Local financial institutions:		
Savings	24,399	38,676
Certificates of Deposit.....	<u>1,800,000</u>	<u>1,500,000</u>
Total	<u>\$ 2,936,894</u>	<u>\$ 2,446,615</u>

Custodial Credit Risk – The Utility has no formal policy regarding custodial credit risk. However, as of June 30, 2009 and 2008, total cash in financial institutions in the amount of \$3,091,692 and \$2,446,090, respectively, were either entirely insured or collateralized by the Tennessee Investment Collateral Pool.

NOTE 4 – ACCOUNTS RECEIVABLE:

Accounts receivable are comprised of the following:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Metered water sales:		
Billed revenue	\$ 144,084	\$ 228,540
Unbilled revenue	<u>257,862</u>	<u>249,338</u>
Total.....	<u>\$ 401,946</u>	<u>\$ 477,878</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 5 – CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2009</u>
Capital Assets, non-depreciable:				
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances	11,176,950	1,111,692	-	12,288,642
Fire hydrants	122,614	274	-	122,888
Meters.....	805,310	115,014	-	920,324
Water treatment plant	4,930,856	264,782	-	5,195,528
Office building	1,027,922	-	-	1,027,922
Water storage tanks	912,445	66,909	-	979,354
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures.....	138,927	4,020	-	142,947
Tools and equipment	223,208	12,454	-	235,662
Transportation equipment	339,815	35,676	(64,014)	311,477
Fencing	29,040	-	-	29,040
Pump station	15,810	349,570	-	365,380
Collection system	5,974	-	-	5,974
Sewer lines.....	1,574,122	-	-	1,574,122
Wastewater treatment plant.....	448,442	-	-	448,442
Total Other Capital Assets at Historical Cost.....	<u>21,762,413</u>	<u>1,960,281</u>	<u>(64,014)</u>	<u>23,658,680</u>
Less Accumulated Depreciation for:				
Water lines and appurtenances	(2,358,748)	(243,243)	-	(2,601,991)
Fire hydrants	(54,022)	(2,453)	-	(56,475)
Meters.....	(216,641)	(25,168)	-	(241,809)
Water treatment plant	(2,672,850)	(152,895)	-	(2,825,745)
Office building	(50,652)	(24,197)	-	(74,849)
Water storage tanks	(469,364)	(29,073)	-	(498,437)
Grading and surfacing	(10,975)	(3)	-	(10,978)
Office furniture and fixtures.....	(102,076)	(13,004)	-	(115,080)
Tools and equipment	(190,003)	(11,944)	-	(201,947)
Transportation equipment	(216,578)	(38,028)	64,014	(190,592)
Fencing	(28,450)	(107)	-	(28,557)
Pump station	(3,055)	(18,567)	-	(21,622)
Collection system	(555)	(577)	-	(1,132)
Sewer lines.....	(89,200)	(31,482)	-	(120,682)
Wastewater treatment plant.....	(82,130)	(33,701)	-	(115,831)
Total Accumulated Depreciation.....	<u>(6,545,299)</u>	<u>(624,442)</u>	<u>64,014</u>	<u>(7,105,727)</u>
Other Capital Assets, net	<u>15,217,114</u>	<u>1,335,839</u>	<u>-</u>	<u>16,552,953</u>
Construction in Progress.....	<u>1,095,338</u>	<u>3,699,414</u>	<u>(1,086,142)</u>	<u>3,708,610</u>
Total Capital Assets, net.....	<u>\$ 16,637,152</u>	<u>\$ 5,035,253</u>	<u>\$ (1,086,142)</u>	<u>\$ 20,586,263</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 5 – CAPITAL ASSETS (Continued):

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Capital Assets, non-depreciable:				
Land	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances	10,901,074	275,876	-	11,176,950
Fire hydrants	122,614	-	-	122,614
Meters.....	760,035	45,275	-	805,310
Water treatment plant	4,734,826	196,030	-	4,930,856
Office building	1,026,980	942	-	1,027,922
Water storage tanks	900,561	11,884	-	912,445
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures	135,084	3,843	-	138,927
Tools and equipment	198,324	24,884	-	223,208
Transportation equipment.....	264,173	75,642	-	339,815
Fencing	29,040	-	-	29,040
Pump station	6,881	8,929	-	15,810
Collection system	2,090	3,884	-	5,974
Sewer lines.....	1,574,122	-	-	1,574,122
Wastewater treatment plant.....	161,782	286,660	-	448,442
Total Other Capital Assets at Historical Cost.....	<u>20,828,564</u>	<u>933,849</u>	<u>-</u>	<u>21,762,413</u>
Less Accumulated Depreciation for:				
Water lines and appurtenances.....	(2,137,234)	(221,516)	-	(2,358,748)
Fire hydrants	(51,569)	(2,452)	-	(54,021)
Meters.....	(193,033)	(23,608)	-	(216,641)
Water treatment plant	(2,541,666)	(131,184)	-	(2,672,850)
Office building	(26,500)	(24,152)	-	(50,652)
Water storage tanks	(442,804)	(26,560)	-	(469,364)
Grading and surfacing	(10,477)	(498)	-	(10,975)
Office furniture and fixtures	(88,580)	(13,497)	-	(102,077)
Tools and equipment	(175,948)	(14,055)	-	(190,003)
Transportation equipment.....	(191,743)	(24,835)	-	(216,578)
Fencing	(28,343)	(107)	-	(28,450)
Pump station	(1,599)	(1,456)	-	(3,055)
Collection system	(339)	(215)	-	(554)
Sewer lines.....	(57,718)	(31,482)	-	(89,200)
Wastewater treatment plant.....	(55,633)	(26,496)	-	(82,129)
Total Accumulated Depreciation	<u>(6,003,186)</u>	<u>(542,113)</u>	<u>-</u>	<u>(6,545,299)</u>
Other Capital Assets, net	<u>14,825,378</u>	<u>391,736</u>	<u>-</u>	<u>15,217,114</u>
Construction in Progress.....	<u>518,017</u>	<u>577,267</u>	<u>-</u>	<u>1,095,338</u>
Total Capital Assets, net.....	<u>\$ 15,668,149</u>	<u>\$ 969,003</u>	<u>\$ -</u>	<u>\$ 16,637,152</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES:

A Summary of Long-Term Debt is presented below:

Balance June 30, 2008	\$ 4,773,879
Additions	3,508,442
Retirements – debt paid	<u>(348,275)</u>
Balance June 30, 2009	<u>\$ 7,934,046</u>

Water Revenue and Tax Bonds, Series 2000, in the amount of \$332,000, were issued through Monroe County, Tennessee. The bonds were issued in the Monroe County's name and the county is liable for repayment if the Utility defaults. The bonds are payable over thirty-eight (38) years. The monthly payments of \$1,577 include interest at 4.75%. As of June 30, 2009, the balance of the bonds was \$301,671.

Maturities and interest requirements of the bonds are as follows:

Year Ending <u>June 30,</u>	Bond <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,665	\$ 14,259	\$ 18,924
2011	4,892	14,032	18,924
2012	5,129	13,795	18,924
2013	5,377	13,547	18,924
2014	<u>5,639</u>	<u>13,285</u>	<u>18,924</u>
Subtotal	<u>25,702</u>	<u>68,918</u>	<u>94,620</u>
2015	5,913	13,011	18,924
2016	6,200	12,724	18,924
2017	6,500	12,424	18,924
2018	6,817	12,107	18,924
2019	<u>7,147</u>	<u>11,777</u>	<u>18,924</u>
Subtotal	<u>32,577</u>	<u>62,043</u>	<u>94,620</u>
2020	7,494	11,430	18,924
2021	7,858	11,066	18,924
2022	8,240	10,684	18,924
2023	8,639	10,285	18,924
2024	<u>9,059</u>	<u>9,865</u>	<u>18,924</u>
Subtotal	<u>41,290</u>	<u>53,330</u>	<u>94,620</u>
2025	9,499	9,425	18,924
2026	9,960	8,964	18,924
2027	10,443	8,481	18,924
2028	10,951	7,973	18,924
2029	<u>11,482</u>	<u>7,442</u>	<u>18,924</u>
Subtotal	<u>52,335</u>	<u>42,285</u>	<u>94,620</u>
2030	12,039	6,885	18,924
2031	12,624	6,300	18,924
2032	13,237	5,687	18,924
2033	13,879	5,045	18,924
2034	<u>14,553</u>	<u>4,371</u>	<u>18,924</u>
Subtotal	<u>66,332</u>	<u>28,288</u>	<u>94,620</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES (Continued):

Maturities and interest requirements of the bonds are as follows (Continued):

<u>Year Ending June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2035	15,260	3,664	18,924
2036	16,001	2,923	18,924
2037	16,777	2,147	18,924
2038	17,592	1,332	18,924
2039	<u>17,805</u>	<u>1,118</u>	<u>18,923</u>
Subtotal	<u>83,435</u>	<u>11,184</u>	<u>94,619</u>
 Total	 <u>\$ 301,671</u>	 <u>\$ 266,048</u>	 <u>\$ 567,719</u>

Local Government Public Improvement Bonds, Adjustable Rate Series IV-E-6, in the amount of \$1,200,000 were issued through Loudon County, Tennessee, and Monroe County, Tennessee. The bonds were issued in the above mentioned counties names and the counties are liable for repayment of the bonds if the Utility defaults. The bonds are payable over twenty-five (25) years at a variable interest rate. Amortization requires principal reductions between \$15,000 to \$90,000 annually. The balance of the bonds as of June 30, 2009 was \$972,500.

Maturities and interest requirements of the bond are as follows:

<u>Year Ending June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2010	40,000	59,400	99,400
2011	40,000	57,000	97,000
2012	45,000	54,600	99,600
2013	45,000	51,900	96,900
2014	<u>50,000</u>	<u>49,200</u>	<u>99,200</u>
Subtotal	<u>220,000</u>	<u>272,100</u>	<u>492,100</u>
 2015	 50,000	 46,200	 96,200
2016	55,000	43,200	98,200
2017	60,000	39,900	99,900
2018	60,000	36,300	96,300
2019	<u>65,000</u>	<u>32,700</u>	<u>97,700</u>
Subtotal	<u>290,000</u>	<u>198,300</u>	<u>488,300</u>
 2020	 70,000	 28,800	 98,800
2021	75,000	24,600	99,600
2022	80,000	20,100	100,100
2023	80,000	15,300	95,300
2024	<u>85,000</u>	<u>10,500</u>	<u>95,500</u>
Subtotal	<u>390,000</u>	<u>99,300</u>	<u>489,300</u>
 2025	 <u>72,500</u>	 <u>5,400</u>	 <u>77,900</u>
	<u>\$ 972,500</u>	<u>\$ 575,100</u>	<u>\$ 1,547,600</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Water Revenue Bonds, Series 1994, in the amount of \$809,000, were issued through Loudon County. The bonds were issued in Loudon County's name and it is liable for repayment if the Utility defaults. The bonds are payable over thirty-eight (38) years. The semi-annual payments of \$24,683 include interest at 5.25%. As of June 30, 2009, the balance of the bonds was \$682,589.

Maturities and interest requirements of the bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 14,797	\$ 34,569	\$ 49,366
2011	15,583	33,783	49,366
2012	16,413	32,953	49,366
2013	17,285	32,081	49,366
2014	<u>18,204</u>	<u>31,162</u>	<u>49,366</u>
Subtotal	<u>82,282</u>	<u>164,548</u>	<u>246,830</u>
2015	19,173	30,193	49,366
2016	20,193	29,173	49,366
2017	21,267	28,099	49,366
2018	22,398	26,968	49,366
2019	<u>23,589</u>	<u>25,777</u>	<u>49,366</u>
Subtotal	<u>106,620</u>	<u>140,210</u>	<u>246,830</u>
2020	24,844	24,522	49,366
2021	26,166	23,200	49,366
2022	27,557	21,809	49,366
2023	29,023	20,343	49,366
2024	<u>30,567</u>	<u>18,799</u>	<u>49,366</u>
Subtotal	<u>138,157</u>	<u>108,673</u>	<u>246,830</u>
2025	32,193	17,173	49,366
2026	33,905	15,461	49,366
2027	35,708	13,658	49,366
2028	37,607	11,759	49,366
2029	<u>39,608</u>	<u>9,758</u>	<u>49,366</u>
Subtotal	<u>179,021</u>	<u>67,809</u>	<u>246,830</u>
2030	41,715	7,651	49,366
2031	43,933	5,433	49,366
2032	46,270	3,096	49,366
2033	<u>44,591</u>	<u>4,109</u>	<u>48,700</u>
Subtotal	<u>176,509</u>	<u>20,289</u>	<u>196,798</u>
	<u>\$ 682,589</u>	<u>\$ 501,529</u>	<u>\$ 1,184,118</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Water Revenue Bonds, Series 1995 in the amount of \$616,000 were issued through Monroe County, Tennessee, as part of the Utility's relocation of a line along Highway 411. The bonds were issued in Monroe County's name and it is liable for repayment if the Utility defaults on payments. The bonds are payable over thirty-eight (38) years. The monthly payments of \$3,074 include interest at 5.125%. As of June 30, 2009 the balance of the bonds was \$520,000.

Maturities and interest requirements of the bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	10,482	26,406	36,888
2011	11,032	25,856	36,888
2012	11,611	25,277	36,888
2013	12,220	24,668	36,888
2014	<u>12,860</u>	<u>24,028</u>	<u>36,888</u>
Subtotal	<u>58,205</u>	<u>126,235</u>	<u>184,440</u>
2015	13,536	23,352	36,888
2016	14,246	22,642	36,888
2017	14,993	21,895	36,888
2018	15,781	21,107	36,888
2019	<u>16,609</u>	<u>20,279</u>	<u>36,888</u>
Subtotal	<u>75,165</u>	<u>109,275</u>	<u>184,440</u>
2020	17,480	19,408	36,888
2021	18,397	18,491	36,888
2022	19,363	17,525	36,888
2023	20,379	16,509	36,888
2024	<u>21,448</u>	<u>15,440</u>	<u>36,888</u>
Subtotal	<u>97,067</u>	<u>87,373</u>	<u>184,440</u>
2025	22,573	14,315	36,888
2026	23,758	13,130	36,888
2027	25,004	11,884	36,888
2028	26,316	10,572	36,888
2029	<u>27,697</u>	<u>9,191</u>	<u>36,888</u>
Subtotal	<u>125,348</u>	<u>59,092</u>	<u>184,440</u>
2030	29,150	7,738	36,888
2031	30,680	6,208	36,888
2032	32,290	4,598	36,888
2033	33,984	2,904	36,888
2034	<u>35,767</u>	<u>1,121</u>	<u>36,888</u>
Subtotal	<u>161,871</u>	<u>22,569</u>	<u>184,440</u>
2035	<u>2,344</u>	<u>15</u>	<u>2,359</u>
	<u>\$ 520,000</u>	<u>\$ 404,559</u>	<u>\$ 924,559</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Water Revenue Bonds, Series 2005, in the amount of \$360,000 were issued through Monroe County. The bonds were issued in Monroe County's name and it is liable for repayments if the Utility defaults. The bonds are payable over thirty-eight (38) years. The monthly payments of \$1,566 include interest at 4.125%. As of June 30, 2009 the balance of the bonds was \$343,659.

Maturities and interest requirements of the bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	4,704	14,088	18,792
2011	4,902	13,890	18,792
2012	5,108	13,684	18,792
2013	5,323	13,469	18,792
2014	<u>5,547</u>	<u>13,245</u>	<u>18,792</u>
Subtotal	<u>25,584</u>	<u>68,376</u>	<u>93,960</u>
2015	5,780	13,012	18,792
2016	6,023	12,769	18,792
2017	6,276	12,516	18,792
2018	6,540	12,252	18,792
2019	<u>6,815</u>	<u>11,977</u>	<u>18,792</u>
Subtotal	<u>31,434</u>	<u>62,526</u>	<u>93,960</u>
2020	7,101	11,691	18,792
2021	7,400	11,392	18,792
2022	7,711	11,081	18,792
2023	8,035	10,757	18,792
2024	<u>8,373</u>	<u>10,419</u>	<u>18,792</u>
Subtotal	<u>38,620</u>	<u>55,340</u>	<u>93,960</u>
2025	8,725	10,067	18,792
2026	9,092	9,700	18,792
2027	9,474	9,318	18,792
2028	9,872	8,920	18,792
2029	<u>10,287</u>	<u>8,505</u>	<u>18,792</u>
Subtotal	<u>47,450</u>	<u>46,510</u>	<u>93,960</u>
2030	10,720	8,072	18,792
2031	11,170	7,622	18,792
2032	11,640	7,152	18,792
2033	12,129	6,663	18,792
2034	<u>12,639</u>	<u>6,153</u>	<u>18,792</u>
Subtotal	<u>58,298</u>	<u>35,662</u>	<u>93,960</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Maturities and interest requirements of the bonds are as follows (continued):

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2035	13,170	5,622	18,792
2036	13,724	5,068	18,792
2037	14,301	4,491	18,792
2038	14,902	3,890	18,792
2039	<u>15,529</u>	<u>3,263</u>	<u>18,792</u>
Subtotal	<u>71,626</u>	<u>22,334</u>	<u>93,960</u>
2040	16,181	2,611	18,792
2041	16,862	1,930	18,792
2042	17,571	1,221	18,792
2043	18,309	483	18,792
2044	<u>1,724</u>	<u>7</u>	<u>1,731</u>
Subtotal	<u>70,647</u>	<u>6,252</u>	<u>76,899</u>
Total	<u>\$ 343,659</u>	<u>\$ 297,000</u>	<u>\$ 640,659</u>

Water Revenue Bonds, Series 2005, in the amount of \$370,000 were issued through Loudon County. The bonds were issued in Loudon County's name and it is liable for repayments if the Utility defaults. The bonds are payable over thirty-eight (38) years. The monthly payments of \$1,610 include interest at 4.125%. As of June 30, 2009 the balance of the bonds was \$352,063.

Maturities and interest requirements of the bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	4,842	14,478	19,320
2011	5,046	14,274	19,320
2012	5,258	14,062	19,320
2013	5,479	13,841	19,320
2014	<u>5,709</u>	<u>13,611</u>	<u>19,320</u>
Subtotal	<u>26,334</u>	<u>70,266</u>	<u>96,600</u>
2015	5,949	13,371	19,320
2016	6,199	13,121	19,320
2017	6,460	12,860	19,320
2018	6,731	12,589	19,320
2019	<u>7,015</u>	<u>12,305</u>	<u>19,320</u>
Subtotal	<u>32,354</u>	<u>64,246</u>	<u>96,600</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	7,309	12,011	19,320
2021	7,617	11,703	19,320
2022	7,937	11,383	19,320
2023	8,271	11,049	19,320
2024	<u>8,618</u>	<u>10,702</u>	<u>19,320</u>
Subtotal	<u>39,752</u>	<u>56,848</u>	<u>96,600</u>
2025	8,980	10,340	19,320
2026	9,358	9,962	19,320
2027	9,751	9,569	19,320
2028	10,161	9,159	19,320
2029	<u>10,589</u>	<u>8,731</u>	<u>19,320</u>
Subtotal	<u>48,839</u>	<u>47,761</u>	<u>96,600</u>
2030	11,034	8,286	19,320
2031	11,498	7,822	19,320
2032	11,981	7,339	19,320
2033	12,485	6,835	19,320
2034	<u>13,009</u>	<u>6,311</u>	<u>19,320</u>
Subtotal	<u>60,007</u>	<u>36,593</u>	<u>96,600</u>
2035	13,556	5,764	19,320
2036	14,126	5,194	19,320
2037	14,720	4,600	19,320
2038	15,339	3,981	19,320
2039	<u>15,984</u>	<u>3,336</u>	<u>19,320</u>
Subtotal	<u>73,725</u>	<u>22,875</u>	<u>96,600</u>
2040	16,656	2,664	19,320
2041	17,356	1,964	19,320
2042	18,085	1,235	19,320
2043	18,846	474	19,320
2044	<u>109</u>	<u>3</u>	<u>112</u>
Subtotal	<u>71,052</u>	<u>6,340</u>	<u>77,392</u>
Total	<u>\$ 352,063</u>	<u>\$ 304,929</u>	<u>\$ 656,992</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Total interest incurred on the Utility's debt for the years ended June 30, 2009, and June 30, 2008, was \$198,800 and \$168,049, respectively.

NOTE 7 – NOTES PAYABLE:

East Coast Tellico Parkway Sewer Line:

An agreement was entered into on August 28, 2003 between the Tellico Reservoir Development Agency (TRDA), Monroe County, Loudon County, and Tellico Area Services Systems.

TRDA agreed to be responsible for the costs of construction of a new sewer line and associated pump stations generally extending from U. S. Highway 411 near the 411 Bridge in Monroe County to the Rarity Pointe Development on Highway 321 in Loudon County, near Fort Loudoun Dam. The amount actually expended for said project was \$1,574,122. This note is payable to TRDA without interest as follows:

Tellico Area Services Systems will pay TRDA on a quarterly basis \$1,500 of each tap fee for each qualified tap made during said quarter until the full cost of construction is paid. The balance of this note as of June 30, 2009 is \$1,253,122.

State Revolving Fund Loan Program:

During the year ended June 30, 2009, Tellico Area Services System entered into a loan agreement through the State of Tennessee Revolving Fund Loan Program. The total amount of the loan agreement is \$9,416,068 to be used for the construction of a new wastewater treatment plant. Draws will be made on the loan as funds are needed. Tellico Area Services System is currently making interest only payments on the outstanding balance. The balance on the loan as of June 30, 2009 is \$3,508,442.

Total Long Term debt is as follows at June 30, 2009:

Long-term debt	\$ 7,934,046
Interest	<u>2,349,165</u>
Total Debt and Interest	<u>\$ 10,283,211</u>

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM:

(A) PLAN DESCRIPTION:

Employees of Tellico Area Services Systems are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 (five) years of service or at any age with 30 years of service. A reduced retirement benefits is available to vested members

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2006

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM (Continued):

(A) PLAN DESCRIPTION (Continued)

at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 (five) years of service and members joining prior to July 1, 1979 were vested after 4 (four) years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly.

Political subdivisions such as Tellico Area Services Systems participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/ps/>.

(B) FUNDING POLICY:

Tellico Area Services Systems requires employees to contribute 5.0 percent of earnable compensation.

Tellico Area Services Systems is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2009 was 6.19% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirements for Tellico Area Services Systems are established and may be amended by the TCRS Board of Trustees.

(C) ANNUAL PENSION COST:

For the year ended June 30, 2009, Tellico Area Services Systems' annual pension cost of \$52,362 to TCRS was equal to Tellico Area Services Systems' required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Tellico Area Services Systems' unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 12 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM (Continued):

(C) ANNUAL PENSION COST (Continued):

Trend Information			
Fiscal Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	\$ 52,362	\$ 100.00%	\$ 0.00
6/30/08	\$ 51,554	\$ 100.00%	\$ 0.00
6/30/07	\$ 42,277	\$ 100.00%	\$ 0.00

(D) FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2007, the most recent actuarial valuation date, the plan was 83.18% funded. The actuarial accrued liability for benefits was \$0.88 million, and the actuarial value of assets was \$0.73 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.15 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.67 million, and the ratio of the UAAL to the covered payroll was 22.02%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presented multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/07	\$ 732	\$ 880	\$ 148	83.18%	\$ 672	22.02%

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 9 – RISK FINANCING ACTIVITIES:

It is the policy of the Utility to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

NOTE 10 – COMMITTED CONSTRUCTION:

As of June 30, 2009, the Utility had the following commitment with respect to unfinished construction in progress:

<u>Project Name</u>	<u>Total Contract or Estimated Amount</u>	<u>Costs Incurred through June 30, 2009</u>	<u>Estimated Cost to Complete</u>
Emily's Landing	\$ 1,694,999	\$ 48,617	\$ 1,646,382
Sequoyah Lodge	340,600	256,430	84,170
Oakwood Hills	50,000	42,172	7,828
Wastewater Plant	<u>9,416,068</u>	<u>3,361,391</u>	<u>6,054,677</u>
	<u>\$ 11,501,667</u>	<u>\$ 3,708,610</u>	<u>\$ 7,793,057</u>

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

REQUIRED SUPPLEMENTAL INFORMATION SECTION

June 30, 2009 and 2008

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
REQUIRED SUPPLEMENTARY INFORMATION
 June 30, 2009 and 2008

Required Supplementary Information:

Schedule Funding Progress for Tellico Area Services Systems

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/07	\$ 732	\$ 880	\$ 148	83.18%	\$ 672	22.02%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method change was made during the year of the most recent actuarial valuation date, therefore, only the most current year is presented.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

SUPPLEMENTAL INFORMATION SECTION

June 30, 2009 and 2008

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
June 30, 2009

<u>Water Plant in Service</u>	<u>ASSETS</u>			
	<u>Balance</u> <u>7-1-08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6-30-09</u>
Capital Assets, non-depreciable:				
Land	<u>\$ 324,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 324,700</u>
Capital Assets, depreciable:				
Water lines and appurtenances ..	11,176,950	1,111,692	-	12,288,642
Fire hydrants	122,614	274	-	122,888
Meters.....	805,310	115,014	-	920,324
Water treatment plant, water supply intake, and waste-water facility	4,930,856	264,672	-	5,195,528
Office building.....	1,027,922	-	-	1,027,922
Water storage tanks – 3	912,445	66,909	-	979,354
Grading and surfacing road - Tank #3.....	10,978	-	-	10,978
Office furniture and fixtures	138,927	4,020	-	142,947
Tools and equipment	223,208	12,454	-	235,662
Transportation equipment.....	339,815	35,676	(64,014)	311,477
Fencing.....	29,040	-	-	29,040
Pump station	15,810	349,570	-	365,380
Collection system.....	5,974	-	-	5,974
Wastewater treatment plant	448,442	-	-	448,442
Sewer lines	<u>1,574,122</u>	<u>-</u>	<u>-</u>	<u>1,574,122</u>
Total Capital Assets, depreciable.....	<u>21,762,413</u>	<u>1,960,281</u>	<u>(64,014)</u>	<u>23,658,680</u>
Total Capital Assets	<u>\$ 22,087,113</u>	<u>\$ 1,960,281</u>	<u>\$ (64,014)</u>	<u>\$ 23,983,380</u>

ACCUMULATED DEPRECIATION			
Balance <u>7-1-08</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>6-30-09</u>
\$ -	\$ -	\$ -	\$ -
2,358,748	243,243	-	2,601,991
54,022	2,453	-	56,475
216,641	25,168	-	241,809
2,672,850	152,895	-	2,825,745
50,652	24,197	-	74,849
469,364	29,073	-	498,437
10,975	3	-	10,978
102,076	13,004	-	115,080
190,003	11,944	-	201,947
216,578	38,028	(64,014)	190,592
28,450	107	-	28,557
3,055	18,567	-	21,622
555	577	-	1,132
82,130	33,701	-	115,831
<u>89,200</u>	<u>31,482</u>	<u>-</u>	<u>120,682</u>
<u>6,545,299</u>	<u>624,442</u>	<u>(64,014)</u>	<u>7,105,727</u>
<u>\$ 6,545,299</u>	<u>\$ 624,442</u>	<u>\$ (64,014)</u>	<u>\$ 7,105,727</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE
June 30, 2009

Year Ended June 30,	COUNTY OF LOUDON WATER REVENUE BONDS, SERIES 1994			COUNTY OF MONROE WATER REVENUE BONDS, SERIES 1995		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 14,797	\$ 34,569	\$ 49,366	\$ 10,482	\$ 26,406	\$ 36,888
2011	15,583	33,783	49,366	11,032	25,856	36,888
2012	16,413	32,953	49,366	11,611	25,277	36,888
2013	17,285	32,081	49,366	12,220	24,668	36,888
2014	18,204	31,162	49,366	12,860	24,028	36,888
Subtotal	<u>82,282</u>	<u>164,548</u>	<u>246,830</u>	<u>58,205</u>	<u>126,235</u>	<u>184,440</u>
2015	19,173	30,193	49,366	13,536	23,352	36,888
2016	20,193	29,173	49,366	14,246	22,642	36,888
2017	21,267	28,099	49,366	14,993	21,895	36,888
2018	22,398	26,968	49,366	15,781	21,107	36,888
2019	23,589	25,777	49,366	16,609	20,279	36,888
Subtotal	<u>106,620</u>	<u>140,210</u>	<u>246,830</u>	<u>75,165</u>	<u>109,275</u>	<u>184,440</u>
2020	24,844	24,522	49,366	17,480	19,408	36,888
2021	26,166	23,200	49,366	18,397	18,491	36,888
2022	27,557	21,809	49,366	19,363	17,525	36,888
2023	29,023	20,343	49,366	20,379	16,509	36,888
2024	30,567	18,799	49,366	21,448	15,440	36,888
Subtotal	<u>138,157</u>	<u>108,673</u>	<u>246,830</u>	<u>97,067</u>	<u>87,373</u>	<u>184,440</u>
2025	32,193	17,173	49,366	22,573	14,315	36,888
2026	33,905	15,461	49,366	23,758	13,130	36,888
2027	35,708	13,658	49,366	25,004	11,884	36,888
2028	37,607	11,759	49,366	26,316	10,572	36,888
2029	39,608	9,758	49,366	27,697	9,191	36,888
Subtotal	<u>179,021</u>	<u>67,809</u>	<u>246,830</u>	<u>125,348</u>	<u>59,092</u>	<u>184,440</u>
2030	41,715	7,651	49,366	29,150	7,738	36,888
2031	43,933	5,433	49,366	30,680	6,208	36,888
2032	46,270	3,096	49,366	32,290	4,598	36,888
2033	44,591	4,109	48,700	33,984	2,904	36,888
2034	-	-	-	35,767	1,121	36,888
Subtotal	<u>176,509</u>	<u>20,289</u>	<u>196,798</u>	<u>161,871</u>	<u>22,569</u>	<u>184,440</u>
2035	-	-	-	2,344	15	2,359
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,344</u>	<u>15</u>	<u>2,359</u>
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 682,589</u>	<u>\$ 501,529</u>	<u>\$ 1,184,118</u>	<u>\$ 520,000</u>	<u>\$ 404,559</u>	<u>\$ 924,559</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2009

Year Ended June 30,	COUNTY OF MONROE LOCAL GOVERNMENT PUBLIC IMPROVEMENT BONDS, ADJUSTABLE RATE SERIES IV-E-6			COUNTY OF LOUDON LOCAL GOVERNMENT PUBLIC IMPROVEMENT BONDS, ADJUSTABLE RATE SERIES IV-E-6		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 20,000	\$ 29,700	\$ 49,700	\$ 20,000	\$ 29,700	\$ 49,700
2011	20,000	28,500	48,500	20,000	28,500	48,500
2012	22,500	27,300	49,800	22,500	27,300	49,800
2013	22,500	25,950	48,450	22,500	25,950	48,450
2014	25,000	24,600	49,600	25,000	24,600	49,600
Subtotal	<u>110,000</u>	<u>136,050</u>	<u>246,050</u>	<u>110,000</u>	<u>136,050</u>	<u>246,050</u>
2015	25,000	23,100	48,100	25,000	23,100	48,100
2016	27,500	21,600	49,100	27,500	21,600	49,100
2017	30,000	19,950	49,950	30,000	19,950	49,950
2018	30,000	18,150	48,150	30,000	18,150	48,150
2019	32,500	16,350	48,850	32,500	16,350	48,850
Subtotal	<u>145,000</u>	<u>99,150</u>	<u>244,150</u>	<u>145,000</u>	<u>99,150</u>	<u>244,150</u>
2020	35,000	14,400	49,400	35,000	14,400	49,400
2021	37,500	12,300	49,800	37,500	12,300	49,800
2022	40,000	10,050	50,050	40,000	10,050	50,050
2023	40,000	7,650	47,650	40,000	7,650	47,650
2024	42,500	5,250	47,750	42,500	5,250	47,750
Subtotal	<u>195,000</u>	<u>49,650</u>	<u>244,650</u>	<u>195,000</u>	<u>49,650</u>	<u>244,650</u>
2025	27,500	2,700	30,200	45,000	2,700	47,700
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
Subtotal	<u>27,500</u>	<u>2,700</u>	<u>30,200</u>	<u>45,000</u>	<u>2,700</u>	<u>47,700</u>
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 477,500</u>	<u>\$ 287,550</u>	<u>\$ 765,050</u>	<u>\$ 495,000</u>	<u>\$ 287,550</u>	<u>\$ 782,550</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2009

Year Ended June 30,	COUNTY OF MONROE WATER REVENUE AND TAX BONDS, SERIES 2000			COUNTY OF MONROE WATER REVENUE AND TAX BONDS, SERIES 2005		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,665	\$ 14,259	\$ 18,924	\$ 4,704	\$ 14,088	\$ 18,792
2011	4,892	14,032	18,924	4,902	13,890	18,792
2012	5,129	13,795	18,924	5,108	13,684	18,792
2013	5,377	13,547	18,924	5,323	13,469	18,792
2014	5,639	13,285	18,924	5,547	13,245	18,792
Subtotal	<u>25,702</u>	<u>68,918</u>	<u>94,620</u>	<u>25,584</u>	<u>68,376</u>	<u>93,960</u>
2015	5,913	13,011	18,924	5,780	13,012	18,792
2016	6,200	12,724	18,924	6,023	12,769	18,792
2017	6,500	12,424	18,924	6,276	12,516	18,792
2018	6,817	12,107	18,924	6,540	12,252	18,792
2019	7,147	11,777	18,924	6,815	11,977	18,792
Subtotal	<u>32,577</u>	<u>62,043</u>	<u>94,620</u>	<u>31,434</u>	<u>62,526</u>	<u>93,960</u>
2020	7,494	11,430	18,924	7,101	11,691	18,792
2021	7,858	11,066	18,924	7,400	11,392	18,792
2022	8,240	10,684	18,924	7,711	11,081	18,792
2023	8,639	10,285	18,924	8,035	10,757	18,792
2024	9,059	9,865	18,924	8,373	10,419	18,792
Subtotal	<u>41,290</u>	<u>53,330</u>	<u>94,620</u>	<u>38,620</u>	<u>55,340</u>	<u>93,960</u>
2025	9,499	9,425	18,924	8,725	10,067	18,792
2026	9,960	8,964	18,924	9,092	9,700	18,792
2027	10,443	8,481	18,924	9,474	9,318	18,792
2028	10,951	7,973	18,924	9,872	8,920	18,792
2029	11,482	7,442	18,924	10,287	8,505	18,792
Subtotal	<u>52,335</u>	<u>42,285</u>	<u>94,620</u>	<u>47,448</u>	<u>46,510</u>	<u>93,960</u>
2030	12,039	6,885	18,924	10,720	8,072	18,792
2031	12,624	6,300	18,924	11,170	7,622	18,792
2032	13,237	5,687	18,924	11,640	7,152	18,792
2033	13,879	5,045	18,924	12,129	6,663	18,792
2034	14,553	4,371	18,924	12,639	6,153	18,792
Subtotal	<u>66,332</u>	<u>28,288</u>	<u>94,620</u>	<u>58,298</u>	<u>35,662</u>	<u>93,960</u>
2035	15,260	3,664	18,924	13,170	5,622	18,792
2036	16,001	2,923	18,924	13,724	5,068	18,792
2037	16,777	2,147	18,924	14,301	4,491	18,792
2038	17,592	1,332	18,924	14,902	3,890	18,792
2039	17,805	1,118	18,923	15,529	3,263	18,792
Subtotal	<u>83,435</u>	<u>11,184</u>	<u>94,619</u>	<u>71,626</u>	<u>22,334</u>	<u>93,960</u>
2040	-	-	-	16,181	2,611	18,792
2041	-	-	-	16,862	1,930	18,792
2042	-	-	-	17,571	1,221	18,792
2043	-	-	-	18,309	483	18,792
2044	-	-	-	1,724	7	1,731
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,647</u>	<u>6,252</u>	<u>76,899</u>
Total	<u>\$ 301,671</u>	<u>\$ 266,048</u>	<u>\$ 567,719</u>	<u>\$ 343,657</u>	<u>\$ 297,000</u>	<u>\$ 640,657</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2009

COUNTY OF LOUDON WATER
REVENUE AND TAX BONDS,
SERIES 2005

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2010	\$ 4,842	\$ 14,478	\$ 19,320	\$ 79,490	\$ 163,200	\$ 242,690
2011	5,046	14,274	19,320	81,455	158,835	240,290
2012	5,258	14,062	19,320	88,519	154,371	242,890
2013	5,479	13,841	19,320	90,684	149,506	240,190
2014	<u>5,709</u>	<u>13,611</u>	<u>19,320</u>	<u>97,960</u>	<u>144,530</u>	<u>242,490</u>
Subtotal	<u>26,334</u>	<u>70,266</u>	<u>96,600</u>	<u>438,108</u>	<u>770,442</u>	<u>1,208,550</u>
2015	5,949	13,371	19,320	100,351	139,139	239,490
2016	6,199	13,121	19,320	107,861	133,629	241,490
2017	6,460	12,860	19,320	115,495	127,695	243,190
2018	6,731	12,589	19,320	118,267	121,323	239,590
2019	<u>7,015</u>	<u>12,305</u>	<u>19,320</u>	<u>126,175</u>	<u>114,815</u>	<u>240,990</u>
Subtotal	<u>32,354</u>	<u>64,246</u>	<u>96,600</u>	<u>568,149</u>	<u>636,601</u>	<u>1,204,750</u>
2020	7,309	12,011	19,320	134,228	107,862	242,090
2021	7,617	11,703	19,320	142,438	100,452	242,890
2022	7,937	11,383	19,320	150,808	92,582	243,390
2023	8,271	11,049	19,320	154,347	84,243	238,590
2024	<u>8,618</u>	<u>10,702</u>	<u>19,320</u>	<u>163,065</u>	<u>75,725</u>	<u>238,790</u>
Subtotal	<u>39,752</u>	<u>56,848</u>	<u>96,600</u>	<u>744,886</u>	<u>460,864</u>	<u>1,205,750</u>
2025	8,980	10,340	19,320	154,470	66,720	221,190
2026	9,358	9,962	19,320	86,073	57,217	143,290
2027	9,751	9,569	19,320	90,380	52,910	143,290
2028	10,161	9,159	19,320	94,907	48,383	143,290
2029	<u>10,589</u>	<u>8,731</u>	<u>19,320</u>	<u>99,663</u>	<u>43,627</u>	<u>143,290</u>
Subtotal	<u>48,839</u>	<u>47,761</u>	<u>96,600</u>	<u>525,493</u>	<u>268,857</u>	<u>794,350</u>
2030	11,034	8,286	19,320	104,658	38,632	143,290
2031	11,498	7,822	19,320	109,905	33,385	143,290
2032	11,981	7,339	19,320	115,418	27,872	143,290
2033	12,485	6,835	19,320	117,068	25,556	142,624
2034	<u>13,009</u>	<u>6,311</u>	<u>19,320</u>	<u>75,968</u>	<u>17,956</u>	<u>93,924</u>
Subtotal	<u>60,007</u>	<u>36,593</u>	<u>96,600</u>	<u>523,017</u>	<u>143,401</u>	<u>666,418</u>
2035	13,556	5,764	19,320	44,330	15,065	59,395
2036	14,126	5,194	19,320	43,851	13,185	57,036
2037	14,720	4,600	19,320	45,798	11,238	57,036
2038	15,339	3,981	19,320	47,833	9,203	57,036
2039	<u>15,984</u>	<u>3,336</u>	<u>19,320</u>	<u>49,319</u>	<u>7,717</u>	<u>57,036</u>
Subtotal	<u>73,725</u>	<u>22,875</u>	<u>96,600</u>	<u>231,131</u>	<u>56,408</u>	<u>287,539</u>
2040	16,656	2,664	19,320	32,837	5,275	38,112
2041	17,356	1,964	19,320	34,218	3,894	38,112
2042	18,085	1,235	19,320	35,656	2,456	38,112
2043	18,846	474	19,320	37,155	957	38,112
2044	<u>109</u>	<u>3</u>	<u>112</u>	<u>1,830</u>	<u>10</u>	<u>1,843</u>
Subtotal	<u>71,052</u>	<u>6,340</u>	<u>77,392</u>	<u>141,696</u>	<u>12,592</u>	<u>154,288</u>
Total	<u>\$ 352,063</u>	<u>\$ 304,929</u>	<u>\$ 656,992</u>	3,172,480	2,349,165	5,521,645
			TRDA Note	1,253,124	-	1,253,124
			SRF Note	<u>3,508,442</u>	<u>-</u>	<u>3,508,442</u>
				<u>\$ 7,934,046</u>	<u>\$ 2,349,165</u>	<u>\$ 10,283,211</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF INSURANCE IN FORCE AND BONDS ON PRINCIPAL OFFICIALS
June 30, 2009

<u>Type</u>	<u>Company</u>	<u>Policy No.</u>
Workmen's Compensation	Tennessee Risk Management Trust	TNRMT
Blanket Bond	CNA Surety	060169147448
Comprehensive General Liability Insurance	Tennessee Risk Management Trust	TNRMT
Property	Tennessee Risk Management Trust	TNRMT
Business Auto Policy	Tennessee Risk Management Trust	TNRMT

Period		Coverage
From	To	
12-14-08	07-01-09	Statutory - \$1,000,000
12-14-08	07-01-09	Employee Dishonesty (Blanket Position): Coverage - \$150,000
12-14-08	07-01-09	Comprehensive General Liability Insurance Bodily Injury and Property Damage Combined: Coverage: General total limit \$2,000,000 Products limit \$2,000,000 Personal injury \$1,000,000 Each occurrence \$1,000,000 Fire damage \$ 100,000 Medical expense \$ 5,000 Property \$5,000,000
12-14-08	07-01-09	\$1,000,000 per Occurrence; \$100,000 per Building
12-14-08	07-01-09	Liability - \$1,000,000 Maximum - Each Occurrence; Uninsured Motorists - \$1,000,000 Each Accident

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
SCHEDULE OF WATER AND SEWER RATES IN FORCE,
AND NUMBER OF CUSTOMERS
 June 30, 2009

Retail Water Rates as of June 30, 2009:

2,000 gallons (Minimum) – \$13.25 (3/4 inch meter)
 Next 2,000 gallons – \$3.39
 All over 4,000 gallons – \$3.16

Wholesale Water Rates as of June 30, 2009:

First 500,000 gallons – \$2.16/thousand
 Next 1,000,000 gallons – \$2.09/thousand
 Next 1,500,000 gallons – \$1.91/thousand
 Next 2,000,000 gallons – \$1.74/thousand
 All over 5,000,000 gallons – \$1.48/thousand

6-30-09

Number of Water Customers:

Retail.....	3,770
Wholesale.....	5

Retail Sewer Rates as of June 30, 2009:

2,000 gallons (minimum) - \$16.00
 All over 2,000 gallons - 4.70/thousand gallons

Wholesale Sewer Rates as of June 30, 2009:

\$3.47/thousand gallons

6-30-09

Number of Sewer Customers:

Retail.....	187
Wholesale.....	2

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF UNACCOUNTED FOR WATER
June 30, 2009

(All amounts in gallons)

	<u>Total Purchased</u>
A Water Treated and Purchased:	
B Water Pumped (potable)	1,070,853,800
C Water Purchased	5,000,500
D Total Water Treated and Purchased	1,075,854,300
(Sum Lines B and C)	
E Accounted for Water:	
F Water Sold	961,428,700
G Metered for Consumption (in house usage)	16,663,990
H Fire Department(s) Usage	180,120
I Flushing	2,777,885
J Tank Cleaning/Filling	0
K Street Cleaning	0
L Bulk Sales	0
M Water Bill Adjustments/plus or (minus)	3,921,824
N Total Accounted for Water	984,972,519
(Sum Lines F thru M)	
O Unaccounted for Water	90,881,781
(Line D minus Line N)	
P Percent Unaccounted for Water	8.45%
(Line O divided by Line D times 100)	
 Q Other (explain)	 See below

Explain Other:

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENTAL AUDITING STANDARDS*

June 30, 2009



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November 11, 2009

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

We have audited the financial statements of the business-type activities of Tellico Area Services Systems as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated November 11, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Tellico Area Services Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tellico Area Services Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tellico Area Services Systems' control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect Tellico Area Services Systems' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Tellico Area Services Systems' financial statements that is more than inconsequential will not be prevented or detected by Tellico Area Services Systems' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Tellico Area Services Systems' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tellico Area Services Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Utility's Board of Commissioners, management, pass-through entities and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Ingram, Overholt & Bean, P.C.